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## Attorneys for Plaintiffs

UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF CALIFORNIA

YOWIE NORTH AMERICA, INC., and  
HENRY M. WHETSTONE, JR.,

## Plaintiffs,

V.

CANDY TREASURE, LLC; and  
KEVIN GASS,

### Defendants.

Case No. 3:13-cv-01906-BEN-JMA

## **PLAINTIFFS' OPPOSITION TO MOTION TO DISMISS CANDY TREASURE, LLC AND KEVIN GASS**

Date: December 9, 2013

Date: December  
Time: 10:30 a.m.

Time: 10:  
Dept.: 5A

## The Honorable Roger T. Benitez

Complaint Filed: 08/16/2013

1 Plaintiffs Henry Whetstone and Yowie North America, Inc. (collectively  
2 Yowie or Plaintiff), submit this opposition to the motion of Defendants Candy  
3 Treasure, LLC and Kevin Gass to dismiss: (1) Yowie's Third Claim for Relief; (2)  
4 Mr. Gass as an individual Defendant and (3) the allegations concerning indirect  
5 patent infringement in Yowie's First and Second Claims for Relief. Defendants'  
6 Motion to Dismiss should be denied for at least three reasons.

7 First, Yowie's Third Claim for Relief sufficiently alleges competitive and  
8 commercial injury. The First Amended Complaint ("FAC") alleges that Yowie  
9 markets and competes in the United States with its candy-egg products and that  
10 Defendants are director competitors. The FAC further alleges that Defendants'  
11 website previously acknowledged that Yowie is a director competitor. The FAC also  
12 notes that Defendants commercially injured Yowie by intentionally interfering with  
13 Yowie's United States marketing and sales efforts. Yowie therefore has standing to  
14 pursue its false advertising claim under the Lanham Act.

15 Second, Mr. Gass should not be dismissed as an individual defendant because  
16 he is directly liable for the acts he committed. The FAC unequivocally specifies that  
17 Mr. Gass performed the tortious acts alleged in the complaint and therefore is  
18 personally liable.

19 Third, Defendants' challenge to the indirect infringement theory in Yowie's  
20 First and Second Claims for patent infringement is procedurally improper.  
21 Defendants impermissibly seek to dismiss both claims in their entirety by attacking  
22 only one of Yowie's theories (indirect infringement). Even if Defendants' requests  
23 were procedurally proper, the FAC nonetheless sufficiently alleges theories indirect  
24 infringement, in addition to the adequately pled direct infringement theory.

25 **I. STANDARD OF REVIEW**

26 **A. Yowie's Allegations Must Be Accepted As True**

27 In deciding whether a claim has been stated, the court must take the claimant's  
28 allegations as true and draw all reasonable inferences in the claimant's favor.

1 *Gomper v. VISX, Inc.*, 298 F.3d 893, 895 (9th Cir. 2002); *Ashcroft v. Iqbal*, 129 S. Ct. 2  
 2 1937, 1949 (2009). A Rule 12(b)(6) motion requires either a “lack of a cognizable  
 3 legal theory” or “the absence of sufficient facts alleged under a cognizable legal  
 4 theory.” *Balistreri v. Pacifica Police Dept.*, 901 F.2d 696, 699 (9th Cir. 1988).

5 **B. The “Plausibility Standard” after *Twombly***

6 To survive a Rule 12(b)(6) motion, a complaint need not contain detailed  
 7 factual allegations; rather, it must plead “enough facts to state a claim to relief that is  
 8 plausible on its face.” *Bell Atlantic Corp. v. Twombly*, 550 U.S. 544, 554-555  
 9 (2007)) A dismissal is only appropriate when the complaint “fail[s] *in toto* to render  
 10 plaintiffs’ entitlement to relief plausible.” *Id.* at 569 n.14. This standard considers  
 11 whether “the complaint fails to state enough facts to raise a reasonable expectation  
 12 that discovery will reveal evidence of the matter complained of, or if the complaint  
 13 lacks a cognizable legal theory under which relief may be granted.” *U.S. Med.  
 14 Instruments, Inc. v. CFS N. Am., Inc.*, 2013 U.S. Dist. LEXIS 162564 (S.D. Cal. Nov.  
 15 12, 2013). Thus, as long as “Plaintiff’s claims [] ‘raise a right to relief above the  
 16 speculative level on the assumption that all the allegations in the complaint are true  
 17 (even if doubtful in fact),’” the motion to dismiss should be denied. *Nordstrom v. U.S.  
 18 Bank, N.A., Inc.*, 2012 U.S. Dist. LEXIS 102267, 5-6 (S.D. Cal. July 18, 2012)  
 19 quoting *Twombly*, 550 U.S. at 555. However, here, the claims are far more than  
 20 merely plausible; hence there is no just justification for a dismissal.

21 **II. ARGUMENT**

22 **A. YOWIE HAS STANDING TO BRING ITS FALSE ADVERTISING  
 23 CLAIM UNDER THE LANHAM ACT BECAUSE THE FAC  
 24 SUFFICIENTLY ALLEGES COMMERCIAL AND  
 COMPETITIVE INJURY**

25 To establish standing under the false advertising prong of the Lanham Act, a  
 26 plaintiff must show “(1) a commercial injury based upon a misrepresentation about a  
 27 product; and (2) that the injury is ‘competitive,’ or harmful to the plaintiff’s ability to  
 28 compete with the defendant.” *Jack Russell Terrier Network v. Am. Kennel Club, Inc.*,

1 407 F.3d 1027, 1037 (9th Cir. Cal. 2005); *see also Coastal Abstract Serv., Inc. v.*  
 2 *First Am. Title Ins. Co.*, 173 F.3d 725, 734, (9th Cir. Cal. 1999) (false statements to  
 3 divert business away from competitor “is the type [of injury] that section 43(a) of the  
 4 Lanham Act was intended to remedy”). As explained in more detail below, Yowie’s  
 5 FAC illustrates that Defendants’ false statements directly interfered with Yowie’s  
 6 United States marketing efforts. As a result of Defendants’ deceitful advertisements,  
 7 Yowie has sufficiently alleged both commercial and competitive injury.

8 Defendants allege that Yowie lacks standing under the Lanham Act because  
 9 Yowie “do[es] not allege competitive injury for sales in the United States.” Def.  
 10 Mot. at 3:12. Employing an incorrect, narrow reading of the FAC, Defendants  
 11 conclude Yowie failed to allege: it has “a product in the United States that can be  
 12 said to have goodwill,” (*id.* at 4:1-2); or that it sold any “related products” in the  
 13 United States, (*id.* at 3:21), and therefore, “[a]t best, Plaintiffs allege that Yowie is a  
 14 candy producer somewhere outside of the United States...” *Id.* at 4:6.

15 In support of their arguments, Defendants stretch the holding in *Halicki v.*  
 16 *United Artists Communications*, 812 F.2d 1213 (9th Cir. 1987) beyond its intended  
 17 bounds. See Def. Mot. at 3:6-11. Specifically, Defendants distort *Halicki* by  
 18 suggesting it holds that sales are required to sufficiently allege competitive injury.

19 In *Halicki*, a film producer brought a false advertising claim against several  
 20 movie theaters. *Halicki*, 812 F.2d at 1213-14. The film producer alleged the movie  
 21 theaters mistakenly advertised plaintiff’s movie as having an “R” rating, thereby  
 22 restricting the audience to adults. *Id.* The theaters, however, were previously aware  
 23 that the Motion Picture Association of America had given the film a “PG” rating. *Id.*  
 24 at 1223. As such, the producer-plaintiff’s alleged injury was poor box-office sales.  
 25 *Id.*

26 Holding that it was not enough for the film producer to merely allege a false  
 27 representation and injury, the reviewing court explained the theaters’ conduct “**must**  
 28

1 *in some discernible way be competitive.” Id.* at 1214 (emphasis added); *see also*  
 2 *PhotoMedex, Inc. v. Irwin*, 601 F.3d 919, 922 (9th Cir. Cal. 2010) (false statements  
 3 about the date a competing product would be available, is actionable under the  
 4 Lanham Act because it potentially interferes with sales). The court explained that  
 5 because the producer was not a direct competitor of the movie theaters, he did not  
 6 assert a valid competitive injury and therefore did not have standing to pursue the  
 7 false-advertising claim. *Halicki*, 812 F.2d at 1214. Thus, *Halicki*’s holding notes that  
 8 competitiveness is the key factor when assessing standing. *See also*  
 9 *TrafficSchool.com, Inc. v. Edriver Inc.*, 653 F.3d 820, 827 (9th Cir. Cal. 2011)  
 10 (“when plaintiff competes directly with defendant, a misrepresentation will give rise  
 11 to a presumed commercial injury that is sufficient to establish standing.”)

12 Here, in sharp contrast to *Halicki*, Yowie’s FAC unequivocally alleges that it  
 13 directly competes with Defendants, specifically alleging that Yowie is a surprise  
 14 chocolate company and has teamed up with Mr. Whetstone through an exclusive  
 15 license to bring its surprise chocolate eggs to the United States. FAC, ¶3. The FAC  
 16 also alleges that Plaintiff Henry Whetstone, Jr. is the inventor of the only legal design  
 17 for surprise chocolates in the United States to-date, and obtained two patents to  
 18 protect that invention: U.S. Pat. Nos. 6,099,872 (‘872 Patent) and 5,925,391 (‘391  
 19 Patent). FAC, ¶¶12, 19.

20 Aware of Mr. Whetstone’s patents, Defendants began selling and inducing  
 21 others to use and sell surprise chocolate eggs—the exact product Yowie was  
 22 marketing in the United States—that infringed Mr. Whetstone’s patents. FAC, ¶¶13,  
 23 20. Additionally, the FAC alleged that Defendants’ website acknowledged  
 24 competitiveness by identifying Yowie as another supplier of candy products  
 25 including chocolate surprises. FAC, ¶¶ 16, 17, 23, 24.

26 Additionally, highlighting Defendants’ directly competitive false  
 27 advertisements, Yowie alleges:

1 These statements are likely to cause injury to Yowie. Yowie's candy  
 2 products are not illegal or unfit for children of certain ages. Yet  
 3 Defendants' advertising has the effect of convincing consumers that they  
 4 are, and that consumers *can only purchase such candy products that*  
*are legal in the United States and/or safe for children of all ages from*  
*Defendants (not Yowie)*. Those who believe Defendants' statements are  
 5 likely to conclude that *Yowie's candy products are illegal and unsafe*  
*for certain children*, thereby tarnishing and damaging Yowie's goodwill  
 6 and reputation, and *interfering with Yowie's ability to market and sell*  
 7 *its candy products*. Additionally, by suggesting certain U.S. agencies  
 8 "approve" products when they in fact do not, this *impinges upon*  
 9 *Yowie's ability to effectively compete in the marketplace* since it cannot  
 make a similar claim (to do so would be false).

10 FAC, ¶29 (emphasis added). The clear import of these allegations is that the U.S. is  
 11 the marketplace, and both Yowie and Defendants are competitors of such candy  
 12 products.

13 Accordingly, as businesses both offering chocolate eggs with surprise toys  
 14 inside, Yowie's FAC provides ample allegations that Yowie and Defendants are  
 15 competitive "in some discernible way." *See Halicki*, 812 F.2d at 1214. This is not a  
 16 movie theatre and a film producer, or some other apple and oranges scenario lacking  
 17 plausibility.

18 The FAC alleges that Yowie is in the U.S. market, competing with Defendants.  
 19 Defendants even point to Yowie as being a direct competitor on Defendants' own  
 20 website. FAC ¶ 16, 23 ("On Defendants' website, Defendants describe Yowie's  
 21 product by saying: "We love these products! That's why we set out to make a *similar*  
 22 *version* for America.") (emphasis added). Accepting Yowie's allegations as true and  
 23 drawing all reasonable inferences in Yowie's favor, *Gomper*, 298 F.3d at 895,  
 24 dismissal is improper.

1           **B. MR. GASS IS PERSONALLY LIABLE FOR YOWIE'S  
2 DAMAGES BECAUSE HE PERSONALLY TOOK ALL ACTIONS  
3 ON BEHALF OF CANDY TREASURE**

4           Defendants focus on alter egg liability to distract from the plain allegation of  
5 Mr. Gass's direct liability. In doing so, Defendants miss that the FAC alleges Mr.  
6 Gass committed these torts as a participant, engaging in the alleged conduct.

7           Defendants' motion to dismiss Mr. Gass in his individual capacity relies  
8 primarily on *Coastal Abstract Serv., Inc. v. First Am. Title Ins. Co.*, 173 F.3d 725 (9th  
9 Cir. 1999) ("*Coastal*"). But *Coastal*, Defendants' own case, directly contradicts  
10 Defendants' argument. *Coastal* explained that a corporate officer or director, like  
11 Mr. Gass here, cannot "hide behind the corporation where ***he is an actual participant  
in the tort.***" *Id.* at 734 (internal citation omitted) (emphasis added). *Coastal's*  
13 analysis also applies in trademark infringement and unfair trade practice cases: "A  
14 corporate official may be held personally liable for tortious conduct committed by  
15 him, though committed primarily for the benefit of the corporation . . . [t]his is true in  
16 trademark infringement and unfair trade practices cases." *Committee for Idaho's  
High Desert v. Yost*, 92 F.3d 814, 823-824 (9th Cir. 1996) (citing *Polo Fashions, Inc.  
v. Craftex, Inc.*, 816 F.2d 145, 149 (4th Cir. 1987) (additional internal citation  
omitted)). Under California law, the same liability principles apply to members of an  
20 LLC: "[M]embers of an LLC are afforded the same limited liability as corporate  
21 shareholders; members are not personally liable for the torts of the LLC unless they  
22 participate directly in the tortious conduct." *J&J Sports Prods. v. Walia*, 2011 U.S.  
23 Dist. LEXIS 26316, 15 (N.D. Cal. Mar. 14, 2011).

24           Defendants then go on to incorrectly suggest that "with respect to the Lanham  
25 Act claims, there simply are no allegations regarding Mr. Gass." Def. Mot. at 5:19-  
26 20. The FAC, however, alleges:

27           At all times relevant to this Complaint, Gass has been, on  
28 information and belief, the co-founder and President of Candy

1                   Treasure *and took all actions on behalf of Candy Treasure alleged*  
 2 *herein.* Gass and Candy Treasure are referred to collectively herein  
 3 as “Defendants.”

4 FAC, ¶6 (emphasis added).

5                   No authority is cited by Defendants that questions the sufficiency of Yowie’s  
 6 allegation that Mr. Gass “took all actions on behalf of Candy Treasure.” That he took  
 7 the actions while acting on behalf of Candy Treasure does not free him of personal  
 8 liability as to Yowie. Because Yowie’s FAC properly alleges that Mr. Gass directly  
 9 committed the tortious acts, he should not be dismissed as an individual Defendant.

10                  **C.     YOWIE’S FIRST AND SECOND CLAIMS ALLEGING PATENT**  
 11 **INFRINGEMENT ARE SUFFICIENTLY PLED**

12                  To survive a motion to dismiss, a complaint must only plead enough facts to  
 13 state a claim to relief that “is plausible on its face.” *Maloney*, 2007 WL 3001687 at  
 14 \*1. Additionally, a moving party may not use Rule 12(b)(6) to challenge individual  
 15 theories of a claim where at least one theory is sufficient to state a claim: “a plain  
 16 reading of Rule 12(b)(6) indicates that the rule may be used only to dismiss a ‘claim’  
 17 in its entirety.” *Ormand v. Sanford Clinic*, 2010 U.S. Dist. LEXIS 48001, 25-26  
 18 (D.S.D. May 13, 2010) *citing* Fed. R. Civ. P. 12(b)(6) (allowing for a motion to  
 19 dismiss based upon a “failure to state a claim upon which relief can be granted”); 5B  
 20 Charles Alan Wright & Arthur R. Miller, Federal Practice and Procedure § 1357, at  
 21 668-671 (3d ed. 2004) (noting that the question under Rule 12(b)(6) is whether “the  
 22 complaint states any legally cognizable claim for relief”)).

23                  Defendants challenge Yowie’s indirect infringement theory of patent  
 24 infringement by suggesting Yowie “does not allege a specific intent for end users to  
 25 infringe the patents in suit.” Def. Mot. at 6:28. The FAC, however, alleges that  
 26 Defendants have “directly and indirectly infringed and continue to infringe . . . .”  
 27 FAC, ¶¶ 13 (First Claim for Relief), 20 (Second Claim for Relief). Defendants do not  
 28 dispute that a theory of direct patent infringement has been adequately pled.

1 Defendants thus impermissibly attempt to strike one theory from Yowie's broader  
 2 claim. *See Ormand*, 2010 U.S. Dist. LEXIS at 25-26.

3 Second, Yowie's First and Second Claims satisfy *Twombly*'s plausibility  
 4 standard even as to indirect infringement. Defendants' challenge is limited to the  
 5 *mens rea* aspect of indirect infringement, intent. Indirect inducement "does not  
 6 require that the induced party be an agent of the inducer or be acting under the  
 7 inducer's direction or control to such an extent that the act of the induced party can be  
 8 attributed to the inducer as a direct infringer." *Akamai Techs., Inc. v. Limelight*  
 9 *Networks, Inc.*, 692 F.3d 1301, 1308 (Fed. Cir. 2012). Rather, "[i]t is enough that the  
 10 inducer causes, urges, encourages, or aids the infringing conduct and that the induced  
 11 conduct is carried out." *Id.*

12 Here, the FAC alleges that Defendants were aware of Yowie's patents and  
 13 deliberately infringed them. *See* FAC ¶¶ 17 ("...Defendants knew of the '391 Patent  
 14 and that Defendants' infringement of the '391 Patent was willful and deliberate..."),  
 15 24 (...Defendants knew of the '872 Patent and that their infringement of the '872  
 16 Patent is willful and deliberate....). Additionally, the FAC alleges that Defendants  
 17 intentionally sold the infringing product for others to use and sell:

18 Defendants also ***intentionally established*** distribution channels for the  
 19 accused products through Target, Food4Less and other national retailers,  
 20 and has regularly shipped the accused product through those channels. For  
 21 example, Food4Less had over 50 California stores with Choco Treasure  
 22 Floorstands (for SKU/UPC 852923002506). Defendants cultivated these  
 23 relationships with multiple national retailers ***for the express purpose of***  
 24 creating distribution channels for the distribution and sale of their Choco  
 25 Treasure chocolate surprises throughout the United States, including  
 26 California as the state with the largest GDP in the nation. ***Defendants***  
 27 ***knew that in doing so***, they were ***deriving significant revenues from***  
 28 ***sale*** of their accused goods in California as the terminal end point of  
 their goods.

1 FAC, ¶8 (emphasis added). Establishing a distribution chain to sell products that the  
2 Defendants knew infringed the patents plausibly states specific intent to cause, urge,  
3 or encourage infringing conduct that resulted in significant sales. *Akamai Techs.*, 692  
4 F.3d at 1308.

5 Accordingly, Defendants' attempt to dismiss the indirect inducement *portion* of  
6 Yowie's First and Second Claims was procedurally improper, but nevertheless, both  
7 Claims were properly plead.

8 **III. CONCLUSION**

9 Because Yowie has sufficiently alleged commercial injury, competitive injury,  
10 and indirect patent inducement, no portions of its First, Second, and Third Claims for  
11 Relief should be dismissed. Additionally, because Yowie alleged that Mr. Gass took  
12 all actions alleged in the FAC on behalf of Candy Treasure, Mr. Gass should not be  
13 dismissed as an individual defendant.

14 In any event, Defendants' challenges at best arise to technicalities and the  
15 pleadings in this case to-date show that any defects found can be cured by  
16 amendment. Thus, the liberal policy in favor of amendment would dictate leave to  
17 amend if any of Defendants' challenges were accepted.

18  
19 Dated: November 25, 2013

MINTZ LEVIN COHN FERRIS GLOVSKY &  
20 POPEO

21 By: s/Ben Wagner

22 Andrew D. Skale, Esq.  
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23 Attorneys for Plaintiffs  
YOWIE NORTH AMERICA, INC. and  
24 HENRY M. WHETSTONE, JR.

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## **CERTIFICATE OF SERVICE**

I, the undersigned, certify and declare that I am over the age of 18 years, employed in the County of San Diego, State of California, and am not a party to the above-entitled action.

On November 25, 2013, I filed a copy of the following document:

**PLAINTIFFS' OPPOSITION TO MOTION TO DISMISS CANDY  
TREASURE, LLC AND KEVIN GASS**

by electronically filing with the Clerk of the Court using the CM/ECF system which will send notification of such filing to the following:

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Executed on November 25, 2013, at San Diego, California.

I hereby certify that I am employed in the office of a member of the Bar of this Court at whose direction the service was made.

s/Ben L. Wagner

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Ben L. Wagner, Esq.

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